

<p align="center">2003-2004 ANNUAL REPORT</p>

SPECIAL REVENUE FUNDS (CONT'D.)

Transient Occupancy Tax Fund

The Transient Occupancy Tax (TOT) is assessed as a percentage of the rental price for transient lodging charged when the period of occupancy is less than 30 days. The tax rate is currently 10%, six percent of which is placed in this fund and four percent of which is deposited in the General Fund. The uses of revenues from the TOT Fund are specified by City Ordinance and include grants and rental subsidies for arts and cultural programs as well as subsidies for the San José Convention and Visitors Bureau and the Conventions Facilities.

Transient Occupancy Tax Fund

	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 9,188	\$ 8,493	\$ (695)	(7.6%)
<i>Expenditure</i>	9,592	9,539	53	0.6%
<i>Fund Balance (est.)*</i>	527 *	390	(137)	(26.0%)

Due to lower than expected receipts in the last quarter of the fiscal year, actual 2003-2004 revenues in the TOT Fund fell below the revised budgeted amount by \$695,000.

When the 2003-2004 Adopted Operating Budget estimate (\$9.987 million) was developed, a 3.5% increase over the anticipated 2002-2003 year-end estimates was assumed. As 2002-2003 failed to rebound from 2001-2002, and 2002-2003 year-end receipts ended the year 13.7% below the 2001-2002 year-end level, it became clear that revenues in 2003-2004 were also going to end the year well below anticipated levels. In response, revenues were adjusted downward at mid-year by \$900,000 bringing the estimated growth level to about 3.5% to reflect the revised projection for year-end performance. Subsequent to that adjustment, actual collections ended the year even below that revised level at \$8.45 million, which was well below the modified budget estimate of \$9.09 million.

The expenditure variance of \$53,000 reflects savings in the Cultural Grant program.

TOT Fund tax revenue is by ordinance shared by three groups, the Convention Center Operation Subsidy (50%), the Convention Visitors Bureau (25%) and Cultural Grants (25%). As discussed above, tax receipts for 2003-2004 ended the year well below anticipated levels. This report, therefore, contains the proposed appropriation adjustment actions required to recoup an overpayment made last year to the three recipients.

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SPECIAL REVENUE FUNDS (CONT'D.)

Transient Occupancy Tax Fund (Cont'd.)

A reduction of \$66,782 is recommended for the Convention Center Operation Subsidy for its share of the overpayment. A reduction of \$33,391 is recommended for the Convention and Visitor Bureau for its share of the overpayment. Finally, the Cultural Grant savings requirement can be achieved by reducing the amount of available rebudget from \$57,804 to \$24,413.

To achieve the 2004-2005 Adopted Operating Budget revenue estimate of \$8,770,000, revenue collections would need to attain a 3.75% growth level over last year's actual cash collection. Based on current performance, it appears unlikely that revenue collections will achieve that level of growth. The three groups have been informed of the situation and the potential for further impacts to their allocations.